

**OFM ISSUE BRIEF**  
**DEFICIT REDUCTION ACT OF 2005 AND THE IMPLICATIONS FOR WASHINGTON'S TANF PROGRAM**  
December 1, 2006

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In February 2006, President Bush signed the Deficit Reduction Act of 2005 (DRA), which reauthorized the Temporary Assistance for Needy Families (TANF) block grant through 2010. The DRA makes a number of changes to the current TANF program, including:

- **Definition of "Work Activities":** The DRA reduces states' flexibility to determine what activities count towards the federal work participation rate.

Prior to October 1, 2006, Washington State counted many activities under "Community Service" that are no longer allowable under the federal rules, including substance abuse and mental health treatment, family violence intervention, resolution of homelessness, and English as a Second Language (ESL) classes. Under the DRA, states can only count structured volunteer activities that benefit the community.

- **Participation Rates and Credits:** DRA provisions update the base year for calculating the caseload reduction credit from FFY 1995 to FFY 2005. Because caseload declines have flattened out, it is anticipated that Washington's will not receive the same level of benefit from the caseload credit beginning FFY 2007. Washington received a credit of 39.3% for caseload reduction in 2006. We estimate the credit will only be 4.7% for 2007.

States who fail to meet the work participation requirements (50% for all-families and 90% for 2-parent cases) are subject to a penalty of up to 5% of their state-adjusted TANF block grant. Penalty reductions of the TANF block grant must be made up from state funds in the subsequent year or additional penalty reductions occur. In addition, the state would be required to increase its TANF MOE spending level from 75% to 80% for that year because it failed to meet the rate.

The yearly financial penalties for failing to meet the rate are successive, and would increase from an estimated \$18 million in 2007 to about \$26 million in 2015 (*these figures include the increased MOE spending*).

This is not a new provision; work participation penalties were in place before the DRA came into effect. However, the caseload reduction credit allowed most states to meet the rate.

- **Populations Included in the Work Participation Rates:** The DRA requires HHS to define "work eligible individuals" for the purposes of calculating the work participation rate. All work eligible individuals are subject to work participation requirements and must be included in the state's participation rate. Before October 1, 2006, families receiving assistance from separate state programs (e.g., Washington's Food Assistance Program (FAP)) were not included from the state's participation rate. Under the DRA, States who wish to claim Separate State Programs towards meeting their MOE requirement will have to include these families in their TANF work participation rate calculations.
- **Work Verification:** The DRA requires states to submit a work verification plan to validate the number of hours parents spend in approved activities. The penalty for failing to establish or comply with these verification procedures of 1% to 5% of the state's TANF block grant (based on the severity of the failure). This is a new penalty, created by the DRA provisions, and separate from the penalty states face for not meeting the participation rates.